

School District Financial Health

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Washington Office of Superintendent of
PUBLIC INSTRUCTION

Four Questions To Answer

What sources of funding do school districts receive?

What financial challenges are school districts facing?

What are the warning signs of financial difficulty?

What is the state's oversight role with financially challenged districts?





1. What sources of funding do school districts receive?

Per-Pupil Funds by Source 2023-24 SY

Source (Including but not limited to..)	Per-Pupil Range	Per-Pupil Average
Total	\$11,613 - \$100,994	\$18,302
State (Basic Ed Formula, Local Effort Assistance)	\$11,069 - \$56,635	\$13,934
Local (Enrichment Levies)	\$96 - \$6,997	\$2,751
Federal (Title I – A, Title III, Title VI, Etc.)	\$0 - \$23,137	\$1,272

State Investment in K-12 Then and Now

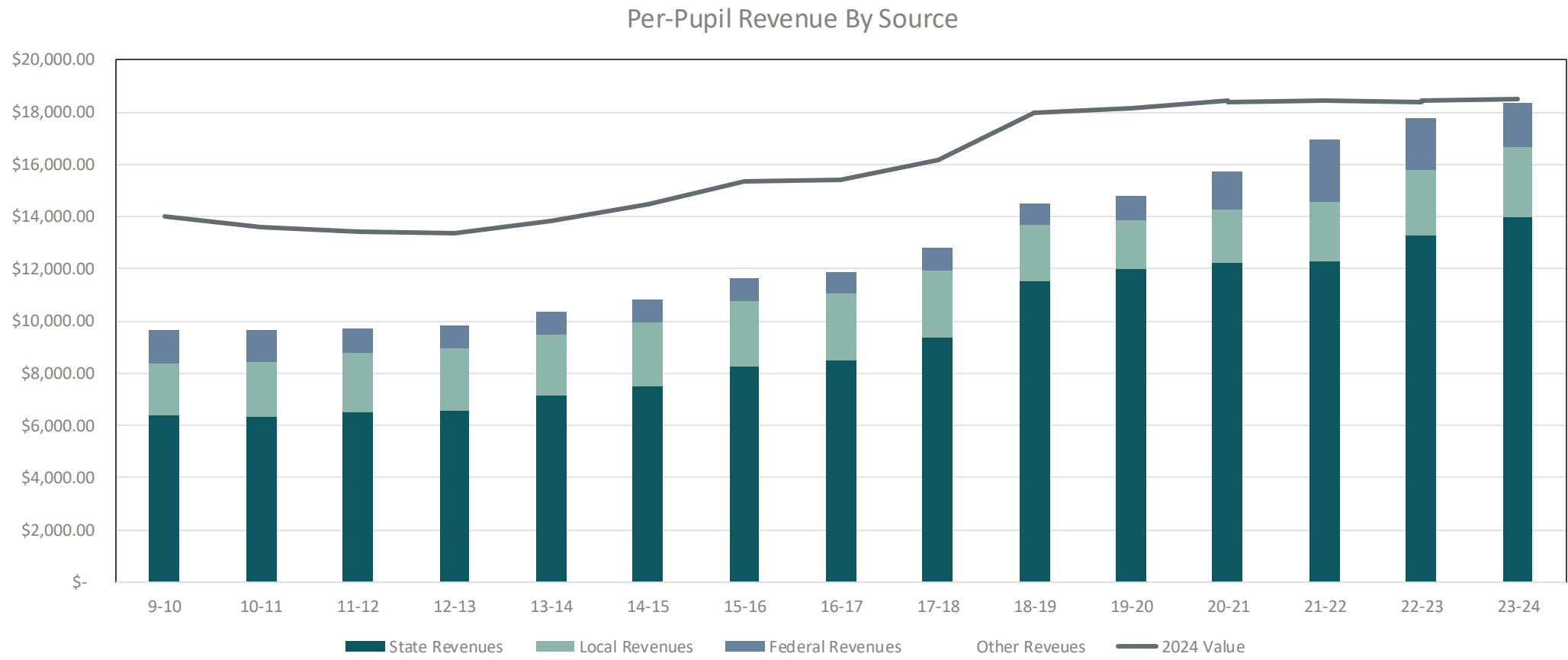
- While total dollars invested in K-12 has increased over the last decade, the K-12 share of investment has declined since the 2019-21 biennium.

	2019-21	2021-23	2023-25	2025-27
Total Spend (billions)	\$26.6	\$27.5	\$31.2	\$33.7
K-12 Percentage	51.6%	44.5%	43.4%	43.2%

- If the state invested 51.6% of its operating budget for the 2025-27 biennium, it would mean an additional \$6.5 billion for schools.



Per-Pupil Revenue by Source Over Time



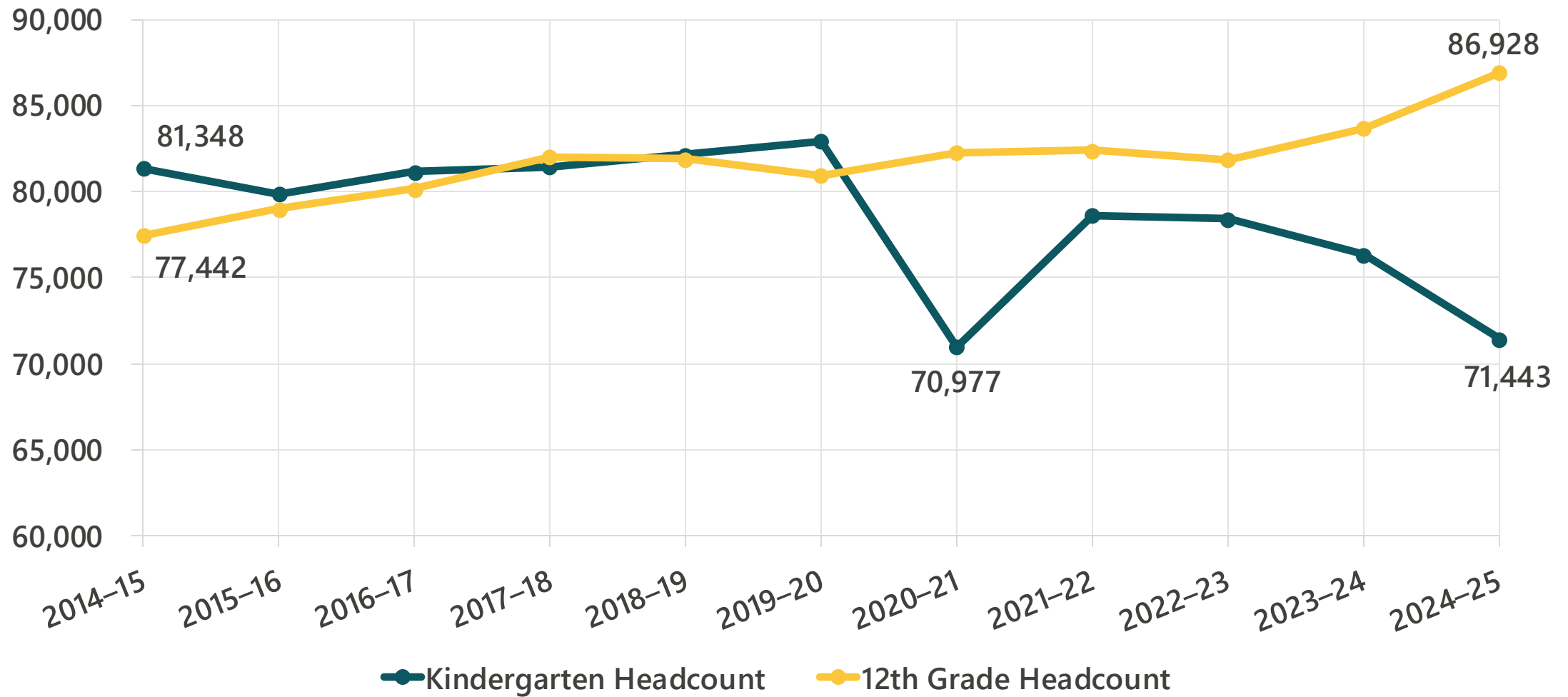


2. What financial challenges are school districts facing?

Factors Impacting School District Finances

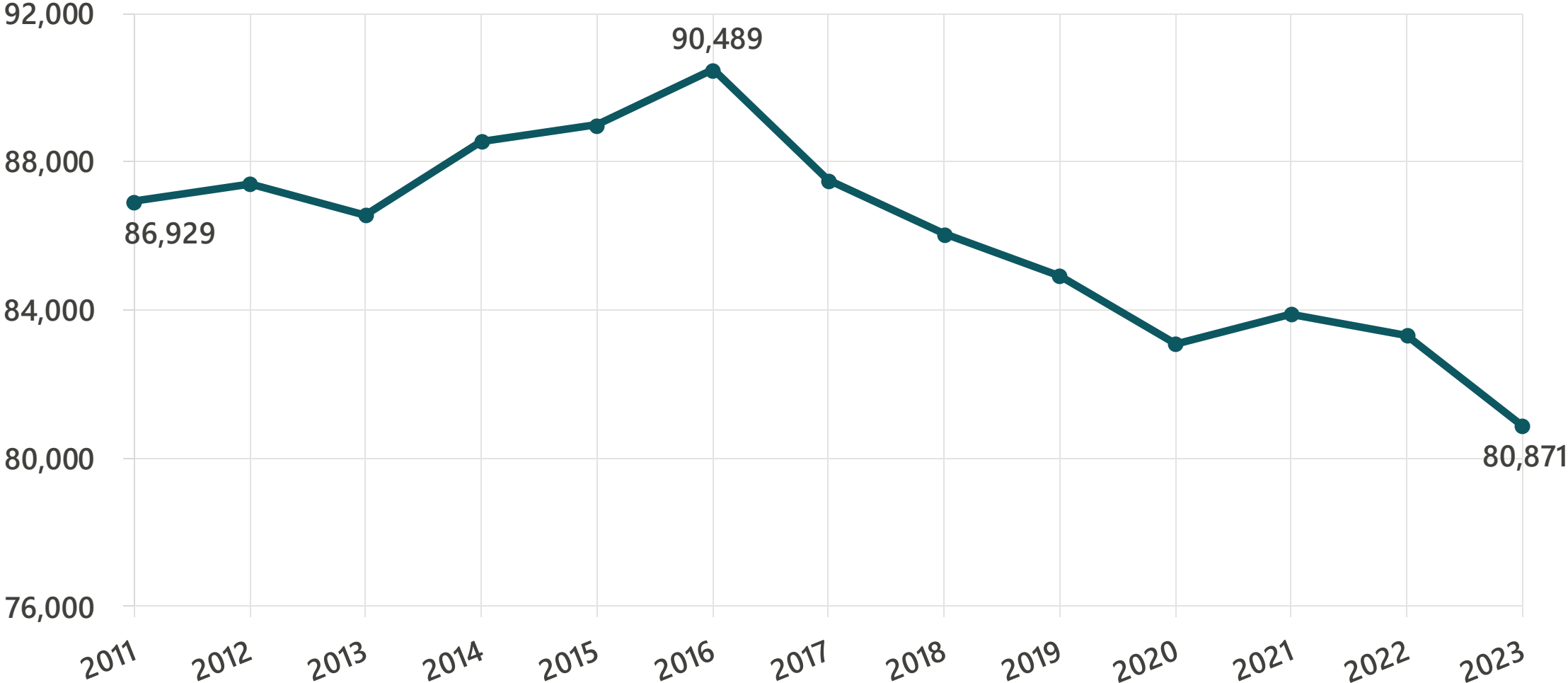
- Declining or stagnant enrollment.
- Inflation exceeding the state formulas.
- Continuously relying on one-time cash or revenue sources to cover ongoing expenditures to meet cash flow needs.
- Loss of significant revenue source either state, local, or federal.
- Lack of a plan to address imminent financial challenges.

Kindergarten and 12th Grade Cohort Headcount Over Time



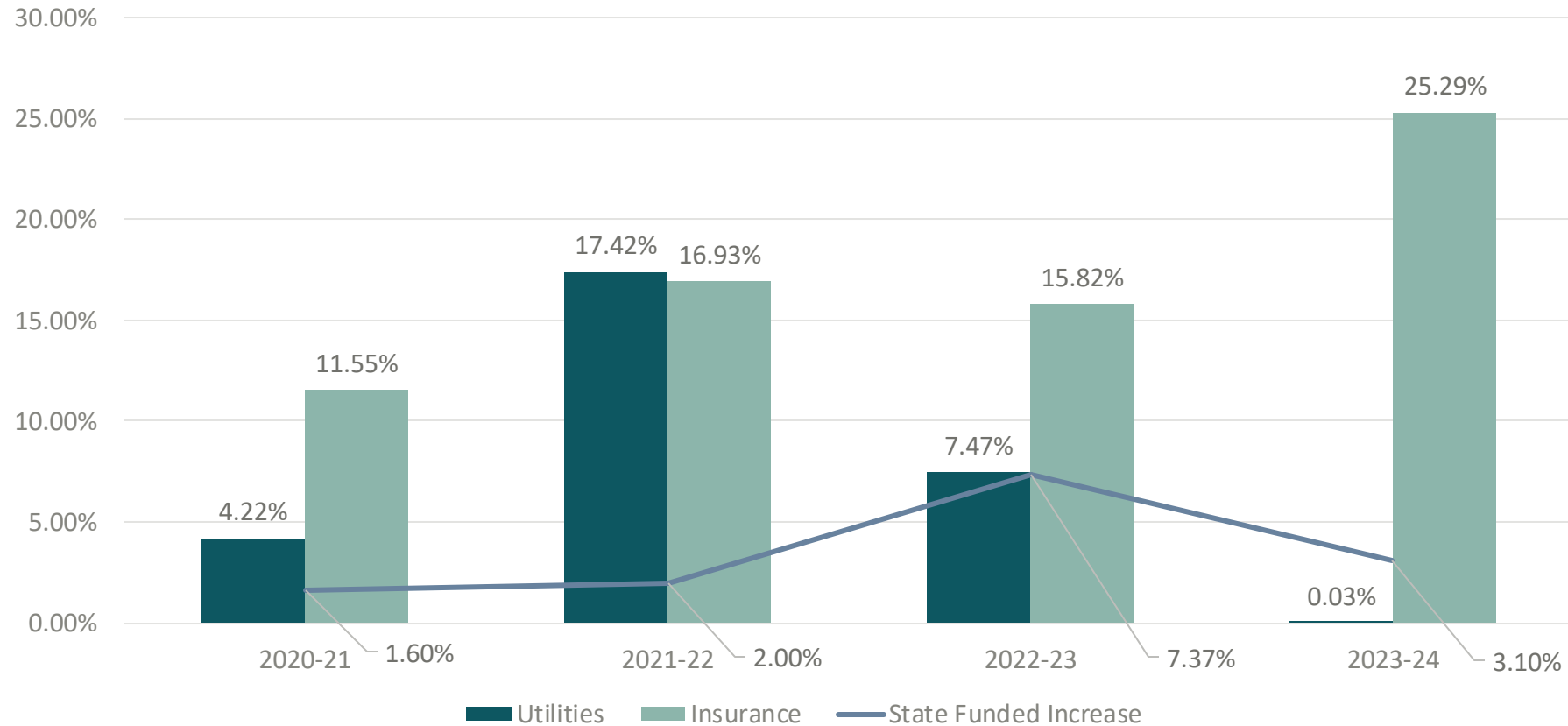
Source: Office of Superintendent of Public Instruction

Births in Washington State Over Time



Source: Washington State Department of Health

Inflation: Revenue vs. Expenditures



In 2023-24, the 3.1% increase in state funding for all MSOC only just covered the cost increase for insurance alone (\$44 million)



Short Term Cash Management Tools

- Interfund Loans
 - From Capital Project Fund (CPF) to General Fund not to exceed a duration of 12 months.
 - Must be repaid with interest.
 - From Transportation Vehicle Fund (TVF) only if the district is on binding conditions and obtains prior approval from OSPI.
- Apportionment Advances
 - Receive early payment of apportionment during the current school year.
 - Must be repaid with interest, 50% by June and 50% by August.
 - May not be carried over across school fiscal years per statute.

Potential Loss of Federal Revenue

- Statewide data shows 7% of all school district revenue comes from federal sources.
- Districts should be continuing to plan scenarios in which federal revenue is significantly reduced or eliminated if future school years (in 2026-27 and beyond).
- Loss of federal revenue with or without a plan will lead to more districts on binding conditions.



3. What are the signs of school district financial difficulty?

Financial Health Checklist Concept

- When considering the financial viability of a school district, OSPI considers a variety of factors, including a district's ability to meet planned expenditure demands without depleting fund balance.
- The following slides contain questions that may be helpful to ask during the monthly budget status presentation at your district's board meeting.

Questions to Ask – Fund Balance

- Is the current year end projected fund balance less than the beginning fund balance?
- Does the ending fund balance reflect actual payment or proper accounting of accounts payable outstanding on August 30th?
- Does the district's General Fund contain cash borrowed from another fund within the district?

Questions to Ask- Enrollment & Cash Flow

- Is the total enrollment for the district for the current school year less than the prior school year?
- Is the total dollar value of accounts payable outstanding at the end of the current period greater than the value in the most recent year-end financial statement?
- Does the district's 12-month General Fund cash flow projection contain three or more months of negative position?

When should I be concerned?

A "yes" response to:	May Mean:
2 or less questions	The district is likely experiencing a routine challenge
3 questions	The district has an increased risk of financial difficulty.
4 or more questions	The district is at significant risk of financial difficulty.

Financial Health Checklist



Five Minute Table/Group Conversation

- What are your reactions to these questions?
- How many of these questions would you currently be able to answer?
- Does the monthly budget update to the board provide the detail needed to answer these questions?
- Are there other key areas of school district financial data that should be brought into these risk factors?

Monthly Reports to the School Board

- School Boards should be presented monthly with a budget status report (as pictured on next slide).
- In addition, the school boards should approve warrants, and receive and an updated cash flow statement.
- These should be provided **every month** including September, October, and November.

Monthly Budget Status Report

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STEILACOOM SCHOOL DISTRICT #1
2025-2026 Budget Status Report

10/08/25

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10--General Fund-- FUND BALANCE -- SPI ACCOUNTS -- Revised -- BUDGET-STATUS-REPORT
Fiscal Year 2025 (September 1, 2025 - August 31, 2026)

For the STEILACOOM SCHOOL DISTRICT #1 School District for the Month of September, 2025

<u>A. REVENUES/OTHER FIN. SOURCES</u>	<u>ANNUAL BUDGET</u>	<u>ACTUAL FOR MONTH</u>	<u>ACTUAL FOR YEAR</u>	<u>ENCUMBRANCES</u>	<u>BALANCE</u>	<u>PERCENT</u>
1000 LOCAL TAXES	9,959,223	160,614.23	160,614.23		9,798,608.77	1.61
2000 LOCAL SUPPORT NONTAX	1,090,000	110,425.60	110,425.60		979,574.40	10.13
3000 STATE, GENERAL PURPOSE	32,400,400	2,915,687.67	2,915,687.67		29,484,712.33	9.00
4000 STATE, SPECIAL PURPOSE	10,904,800	938,650.36	938,650.36		9,966,149.64	8.61
5000 FEDERAL, GENERAL PURPOSE	245,000	.00	.00		245,000.00	0.00
6000 FEDERAL, SPECIAL PURPOSE	3,181,000	5,657.28	5,657.28		3,175,342.72	0.18
7000 REVENUES FR OTH SCH DIST	0	.00	.00		.00	0.00
8000 OTHER AGENCIES AND ASSOCIATES	0	.00	.00		.00	0.00
9000 OTHER FINANCING SOURCES	0	.00	.00		.00	0.00
<u>Total REVENUES/OTHER FIN. SOURCES</u>	57,780,423	4,131,035.14	4,131,035.14		53,649,387.86	7.15





4. What is the State's oversight role with financially challenged districts?

Three Stages of State Oversight

- **Binding Conditions**
- **Financial Oversight Committee (FOC)**
- **Enhanced Financial Oversight**

Districts may move from one status to another at any point in time based on their financial situation. Movement may occur from a less restrictive status to a more restrictive status, or the other way around.

Binding Conditions

- Required when a district submits a budget, budget extension, or financial statement to OSPI with a negative general fund balance.
- Binding Conditions are a set of financial performance goals that the district must achieve through local decision making to restore financial health within two years.
- Binding Conditions are not specific mandated actions the district must follow.
- Jointly administered by OSPI and the ESD in which the district is located.
- Initial duration of conditions is two school years.

Examples of Initial Binding Conditions

- Here are some examples of initial Binding Conditions:
 - By November 30, 202X, the district's actual general fund balance must be greater than (\$5,000,000).
 - General fund revenue projections must exceed \$35,000,000 throughout the school year.
 - By January 31, 202X, the district's projected year-end general fund balance must be greater than \$0.
- None of these require the district to take any specific action.
- These are 'benchmarks' the district must achieve through actions that are locally determined by the school board.

Example In Real Life

You need to pay off a \$25,000 credit card debt by next summer.

Which of the following are examples of initial Binding Conditions?

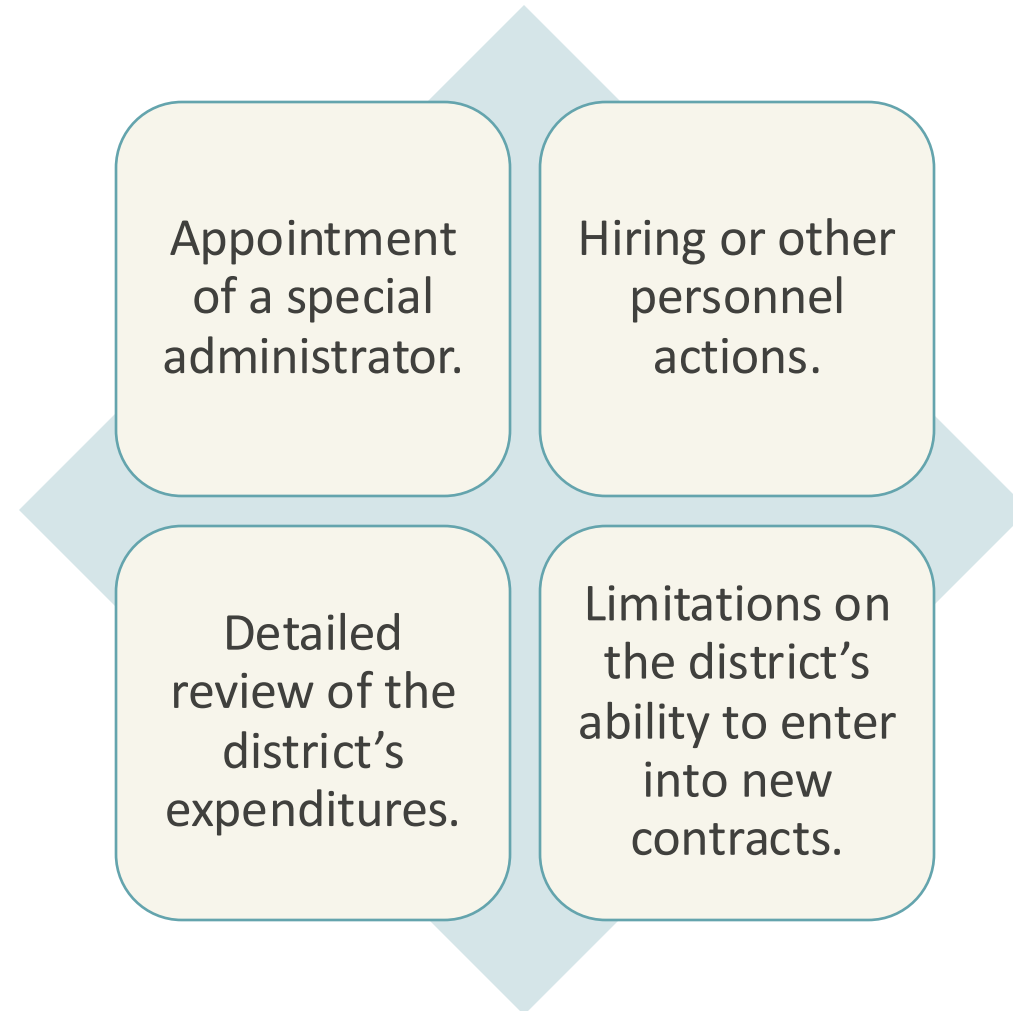
- Reduce your entertainment streaming subscriptions from five to one.
- Your balance must be less than \$10,000 by March 1, 2026.
- Limit your trips to Starbucks to once a week.
- Half of the balance must be paid off by December 31, 2025.

Financial Oversight Committee (FOC)

- Convened if a district is unable to construct a viable financial plan that restores a positive fund balance within two school years.
- The FOC must hold a public hearing in the district to solicit feedback on the financial plan of the district.
- The FOC makes a recommendation to the state superintendent regarding either keeping the district on binding conditions or moving them to enhanced financial oversight.

Enhanced Financial Oversight

Enhanced Financial Oversight (EFO) shall include, but not be limited to, the following types of actions:



Current Districts on Financial Oversight

- Binding Conditions
 - Yelm, Shelton, Mabton, Tukwila, Mt. Baker, Bellevue
- Financial Oversight
 - No districts assigned here.
- Enhanced Financial Oversight
 - Prescott and Marysville

Note: Each of these are jointly administered by OSPI and the local Educational Service District (ESD).

Final Thoughts or Questions?

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